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ALTERNATIVE PATTERNS OF DOMESTIC TRADE STRUCTURES AND MECHANISMS FOR THE ESTABLISHMENT OF MORE RATIONAL DISTRIBUTION CHANNELS AND DOMESTIC FINANCIAL MARKETS

INTRODUCTION

1. During the colonial period, the governors of many African countries set up an economic structure which gave pride of place only to the production and marketing of agricultural and industrial commodities that were meant for export to the developed countries. Because they were compelled to specialize in the export sector, African countries inherited from the colonial past, an embryonic demand in African countries.

2. In the early years of independence, African countries pursued the economic policy of their former colonial masters which tended to strengthen the external trade structure by which they earned foreign exchange. Few countries adopted measures aimed at developing domestic trade. The trading systems remained inefficient and unadapted to the needs of the majority of the population who are often isolated in the rural areas. Only in 1980 did African leaders collectively become aware of the urgent need to rationalize domestic trade in order to increase its contribution to national socio-economic development. The Lagos Plan of Action which African Heads of State and Government adopted in April 1980 specifically recommends that African countries should pay particular attention to domestic trade and to improving its contributions under which it is now taking place, so as to optimize its contributions to the socio-economic development of member States. To this end steps should be taken where appropriate:

(a) to promote internal trade at the national level, with particular attention to potentials offered by the rural markets;

(b) to rationalize channels of distribution with a view in particular to minimizing the number of intermediaries and to ensuring control thereof by indigenous enterprises whether private or public or a combination of both;

(c) to keep a balance between investment in the domestic trade sector and investment in productive sectors in such a way as to ensure that the growth of the former does not geopardize the growth of the latter.

3. This report will therefore briefly review the situation of domestic trade and unregistered border trade in Africa. On the basis of information gleaned from a few case studies on domestic trade and a preliminary note prepared by ECA secretariat on trans-border trade, this review will be carried out in the four chapters of this study. Chapter 1 will outline the current situation of domestic trade. Chapter 2 will be an analysis of unregistered border trade; Chapter 3 will briefly review the major problems and obstacles to the development of domestic trade while Chapter 4 will propose alternative ways of expanding domestic trade.

CHAPTER 1

Current situation of domestic trade in Africa

4. In this chapter, an attempt will be made briefly to describe the components of production and the main import items that are traded domestically in Africa.

An attempt will also be made to describe the main economic operators in this area and a description will also be given of the structure of domestic trade organization and distribution together with the various facilities provided for distributors.

Section I: local products being traded domestically

5. No analysis can be conducted of domestic trade without considering its very purpose. A description of the characteristic features of Africa's agricultural economy will enable us to identify not only the nature of the food and industrial products traded domestically but also the obstacles that must be overcome in the agricultural sector if domestic trade is to be developed. Agriculture can be considered the mainstay of African economies because it provides for the bulk of food, income and foreign exchange earnings. It remains, nevertheless, outward-looking. The plantation economy inherited from the colonial period continues to predominate. The activities of foreign and transnational corporations are geared to meeting the needs of the metropolitan countries. Such an economy tends to sidetrack farmers or keep them from producing for the country. It therefore provides no impetus for setting up domestic channels to offset outward-looking channels. Funding themselves marginalizing, in this way, the local population devote themselves to producing food for their own consumption.

6. Their subsistence economy is characterized by rudimentary farming practices. The implements used are simple ones like hoes, pick axes and spades. Subsistence economies use manual labour and animal traction and mechanized farming are to become established in most African countries. Female labour plays a preponderant role. Given the fact that subsistence economies are basically geared to meeting food needs, most rural products are food crops which, depending on natural factors and the tastes of local people, consist of cereals, roots, tubers and fruits. Indeed, the type of agricultural food production to be found in the subregions varies in accordance with climatic hazards. The West African subregion produces mainly cereals and, in some cases, roots and tubers. The major food products of countries of Central Africa are roots and tubers together with some cereals which are cultivated in the countries members of the Economic Community of Great Lakes Countries (CEPGL). In the Eastern and Southern African subregion, cereals, roots and tubers are grown together with some pulses, while countries of North Africa record high levels of fruit production which outstrips by far other food products.

7. It is clear from the foregoing that the range of goods produced is scarcely varied. Added to this, the scant attention paid by some African countries to the development of the informal sector explains in part why the volume of locally-produced agricultural goods is stagnating. It is worth noting that the technological focus and organization structures of certain African countries continue to promote the production of cash crops to the detriment of the production of foodstuffs. Such a policy compels the local population to develop a subsistence economy. African countries under population pressure can achieve self-sufficiency in food by counting on the farmer who has to produce not only to meet the needs of

his family but also to cater for part of the growing urban population. African countries should design policies aimed at boosting local food production.

8. Another group of food products traded domestically is composed of livestock products ranging from cattle, pigs, sheep, goats to poultry. According to FAO data[1] nearly all African countries produce meat but the volume has barely increased during the current decade. Drought, various animal diseases and low investments to control those diseases are among the factors which kept down the level of meat production.

9. Fishery products are another group of products traded domestically in Africa. Such products are meant for home consumption, the local market and the external market. Traditional fishing is practiced on such inland waters as lakes, rivers and ponds by individual fishermen having nothing more than a nylon fishing net or a canoe. Their produce is consumed at home or sold on the market. The bulk of the products of modern fishing goes to mostly foreign companies with modern equipment to process the products for export. Only a small part of the catch is sold on the local market.

10. The industrial policy pursued by most African countries after independence has given pride of place to extractive industries, most of which are in the hands of transnational corporations which exploit these industries for the benefit of the metropolitan countries. The profits reaped are not ploughed back into other industrial activities of the host countries and this has held back the industrialization of most African countries. Among the few African industries operating in domestic trade, light industries or consumer goods industries occupy a place of privilege. According to an ECA publication[2] the share of these industries in the total manufacturing value added in 1985 was 68.4 per cent for Nigeria with the food, beverage, tobacco, textile and leather sector accounting for most industrial manufacturing in that year. The processing of locally produced food in Zimbabwe accounted for 75 per cent of industrial sector production. In the Gambia, the processing of groundnuts and fish accounted for more than 75 per cent of industrial value added. That high proportion did not imply an increase in the total industrial output of that country because domestic demand far exceeded actual supply. The increase in registered imports of industrial consumer goods offset the decline in production arising from a number of factors which included:

(a) The costly supply of imported inputs;

(b) The distance of industrial production areas from the rural centres producing raw materials;

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[1] Source FAO Production Yearbook, Vol. 40.

[2] See Survey of Economic and Social Conditions in Africa, 1985-1986, E/ECA/CM.13/4/Rev.1.

(c) Defective industrial infrastructure; and

(d) Poor industrial management. Because the resulting production costs could not be contained, production slowed down leaving ever-rising demand unsatisfied.

Section 2: Imports of consumer goods featuring in domestic trade

11. Consumer goods are generally imported to make up for national production shortfalls. The performance of the food production sector of African countries in recent years has scarcely been encouraging. Many African countries were compelled to disburse a considerable amount of foreign currency to import food to meet the food requirements of their local population or to depend on aid from developed countries. Had African countries taken the necessary measures for the development of domestic trade, they would have avoided this situation. Indeed, it happens that certain regions within the same country are glutted with foodstuffs while other parts of that country are facing a severe food shortage. As can be seen from the table below, African trade in manufactures has been in persistent deficit.

Table: Trade in manufactured goods in African countries (in millions of $US)

	Exports		Imports		Trade balance	
	1981	1985	1981	1985	1981	1985
North Africa	2,102	2,140	24,884	22,893	22,782	20,753
West Africa	937	573	21,248	12,911	20,377	12,338
Central Africa	657	222	3,226	3,147	2,569	2,325
Eastern and Southern Africa	2,428	2,095	8,008	6,177	5,580	1,082
Total	6,161	5,630	57,458	35,128	51,197	39,498

Source: ECA secretariat, E/ECA/CM.13/4.

Section 3: Economic operators engaged in domestic trade

12. The economic system of any given country determines how domestic trade is organized and structured. Domestic trade stems both from the private sector in countries operating a market economy and from the State sector in countries with a centrally planned economy. In the private sector, all economic agents, including the State, participate in domestic trade. Locally-produced agricultural and other imported products meant for consumption, are traded by national and/or marketing co-operatives while wholesale trading generally from bases in the urban centres, is conducted by foreign trading companies which are sometimes subsidiaries of transnational corporations. Parastatals look after the distribution of certain local or imported consumer items.

Section 4: Distribution channels; physical facilities and financing of domestic trade

13. The analysis of distribution channels will give a clear idea of the type of operators involved in goods distribution. Distribution being a trading function whereby customers are supplied with a local or imported products, involves a number of intermediaries. Distribution channels may therefore be considered under two aspects: forms of distribution and facilities made available to distributors. With regard to forms of distribution there are wholesale distributions in large quantities and wholesale distribution dealing in small quantities and retail trade. Wholesale trading is carried out in urban centres and controlled by foreign companies. Some indigenous people are involved in wholesale trade but are unable to mobilize the substantial funds required for investment in this type of trade, particularly in terms of equipment, transport and warehousing facilities. Wholesalers distribute to semi-retailers or to retailers who, in turn, sell directly to consumers. It does happen, however, that wholesalers (who are often manufacturers) have their own retail distribution networks. This applies to the makers of alcoholic or non-alcoholic beverages in most African countries. The urban markets are better organized than those of the rural areas. This economic dualism is a feature of most African countries and is reflected in the products traded on the domestic market. It has been noted that rural trading mainly involves small quantities of agricultural food products and industrial consumer goods. When there is a good harvest, the marketable surplus is mostly routed to the urban centres. Manufactured goods are generally sold in urban centres where purchasing power is higher than in the rural areas. Imported items are sold in commercial establishments owned by foreigners.

14. With regard to the infrastructure required for the domestic marketing of products, rural areas have been found to be at a disadvantage in several respects. The existing infrastructure only caters for the collection of agricultural produce for transportation to the urban centres. Indeed, the highways are essentially built to link up with the major urban centres in order to supply them with foodstuffs while the ports are meant for the export of produce. Rail transport is generally used to carry heavy merchandise over long distances and railways, which have not made much progress since independence, are used to transport export commodities to the urban centres, ports and airports. In spite of the existence of national institutions set up to promote rail transport, the railway network is

developing very slowly. It plays a secondary role in the domestic distribution of goods. The other modes of transport in Africa can hardly be used for domestic trade. Cases in point are maritime transport (which is almost exclusively used for foreign trade) and air transport which happens to be costly in terms of the procurement and maintenance of aircraft.

15. With regard to warehousing and storage facilities, the rural areas seldom have appropriate warehouses or storage facilities for the preservation of perishable goods. The State builds warehouses in the rural areas only when it is involved in the marketing of food produce. What is more, rural markets are poorly equipped: shelters for sellers and their wares are rudimentary; the goods are generally piled up in make shift sheds (in the corners of dwellings or simply in the open air exposed to the vagaries of the weather) resulting in substantial post harvest losses. In the urban areas, distributors have warehouses concentrated in the port areas (for imports) and in the production area (for local manufactures). With regard to storage facilities, several countries have grain silos installed in the urban centres and belonging to the public organizations involved in grain marketing. Much remains to be done in order to ensure food security for all people.

16. The development of domestic trade requires investment financing and operating funds. The African banking system is made up of commercial banks and development finance institutions. It has been noted that banks are wary about financing domestic trading activities. This is because of the nature and vocation of those banking institutions. Established in Africa by transnational corporations, those banks are primarily interested in financing external trade which is monopolized by foreign business transactors. The banks generally grant short-term loans. To alleviate the difficulties experienced by farmers and small traders to obtain trade credit, certain African countries have set up agricultural trading institutions such as national agricultural credit schemes (to meet the urgent financial needs of small holders and traders) and are encouraging national development banks to grant loans to farmers and small traders.

CHAPTER II

BORDER TRADE IN AFRICA

17. It happens that a substantial proportion of local or imported products fail to find their way on to the domestic market. Indeed, many African countries especially, the landlocked ones, share boundaries with several neighboring countries. Such borders have been marked out by the former colonial powers and separate people having the same culture and social organization. Those artificial boundaries have, however, not been able to prevent the people from maintaining sustained social and economic relations, which are further cemented by trading links. This chapter will therefore review briefly the various forms that border trade can take, analyze the types of products involved in border trade and indicate the factors which affect this type of trade. The information contained in this

analysis is drawn from a preliminary note on transborder trade prepared by ECA secretariat. [3]

Section 1: Major forms of border trade

(a) Smuggling

18. Border trade takes many forms of which smuggling is the most common. Goods are smuggled on the basis of an agreement between suppliers and buyers on either side of the border regarding the type and quantity of goods and the mode of payment. Smuggling is made easy by the people who inhabit border areas and belong to the same tribe. The smugglers use porters to carry the goods across unpatrolled territory. Currency trafficking forms an integral part of border trade. Money is exchanged on the black market and the rates of exchange are flexible, varying from day to day. Smuggling is a drain on the resources of the countries concerned which varies with the type and quantity of products involved.

(b) Traditional markets

19. The traditional markets held once or twice weekly are a variant of border trade. People belonging to the same tribe as the sellers prefer to patronize such markets organized periodically across the borders to avoid the long walk to the far-located market centres. Such trade which is necessarily legally registered involves products stored in border area warehouses.

(c) Transit trade

20. Some products are sometimes smuggled into a country not for the local market but for trans-shipment and sale in other transborder regions or re-exportation for foreign curr It is obvious that this type of contraband is essentially conducted in such crops such as coffee which is after smuggled for export to overseas ports.

(d) Theft

21. Such type of unregistered transborder dealing mainly involves secondhand luxury goods such as secondhand cars and the contraband of costly items such as television and radio sets paid for in foreign currency but traded across the border in local currency.

Section 2: Types of products involved in unregistered transborder trade

22. This section takes a look at the products involved in unregistered transborder trade. The range of products traded varies from country to country depending on the supply and demand situation. The first group of products is made up of foodstuffs. Its profit making is the dynamic behind transborder trade, it has been noted however that the trade generally fulfills the basic requirements of

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[3] Source: E/ECA/TRADE/86

the population. It is therefore not surprising that a brisk trade is carried out in certain food items such as vegetable oil, flour, sugar, salt and beverages which are in great demand. Certain countries' surplus products such as wheat, maize, millet, sorghum, rice, cow peas, beans, peas, banana, cassava, ground nut, fruits and fish find their way easily through the contraband pipeline especially when they are hit by an import ban or whose import licences entail a painful negotiation of administrative obstacle course. However in a certain number of cases these products are officially marketed by semi public enterprises even if a considerable amount is lost to unregistered transborder trade.

23. Goods for general consumption constitute an important trading package in the unregistered trade depending on the level of supply and demand within a particular country rather than regular trading items in border areas even if there is a demand for certain items such as beer, soap, whisky, toothpaste, matches, plastic containers in those areas for immediate consumption. Transborder traders and smugglers also deal in products such as electronic equipment, television set, radio set, video tape recorders, cosmetics, ready made clothing, shoes, car spare parts, tyres, generating units and building materials. The spin-offs from such trading activities have transformed border town into flourishing centres.

Section 3: Factors affecting transborder trade

24. It emanates from the preceding section that trading in the market zones is confined to consumer goods. As time goes by this trade has expanded into products which are imported merely to cash in on their re-exportation. Many factors have conspired to bring about such a situation.

(a) Concern for profits

25. Some businessmen cashing in or some governments' inability to exercise adequate border control, smuggle contraband goods in or out thereby circumventing customs duties.

(b) Administrative procedures

26. Efforts to obtain import licence are often frustrating and costly involving commuting over several kilometers or spending several days in the capital to obtain the necessary papers to carry out a business deal. Even if businessmen want to remain within the law, they are put off by such difficulties into resorting to contraband.

(c) Tariff and non-tariff business

27. In some countries where customs control is not rigorous but where customs duties and other tariffs are very high, businessmen are likely to resort to smuggling which enables them to land huge profits notwithstanding the risk involved. Other non-tariff barriers such as health checks and regulations, quotas and import and export licences for certain products undoubtedly serve to boost the stakes for contraband. Despite restrictions, more consumers are willing to pay very high prices for certain luxury items thereby encouraging smugglers to sneak in such products. Goods subject to export ban are also attractive proportion for

smugglers in so far as the [illegible] goods at or ill below prices once they are out of the border.

(d) Exchange rates and monetary parties

24. Most business transactions in border areas are carried out in currencies of the two countries at rates of exchange which bear no relation to official exchange rates despite the existence of monetary regulations which member States are hard pressed to implement. Exchange rates variation tip the scales in favour of contraband especially if one of the currencies involved is strong and easily convertible. Weak or over valued currencies are an inducement to traders of a weak currency country to obtain the stronger currency of the neighbouring country in a bid to increase their purchasing power. Smuggling is also a short cut for strong currency dealers to obtain weak currencies at very low rates which enables them to acquire products from the weak currency country at very low costs.

(e) Price differentials

29. Differences in pricing and fiscal policies sometimes result in wide disparity in prices of the same products on two sides of the border. This anomaly automatically triggers off a movement of food products across the border by traders taking to [illegible] of unequal prices. Price differentials are also caused by the high costs of ferrying goods to the border zone of a country and by trade restrictions. Import bans on certain products in great demand also act as a fillip to border trade especially when the same products are available across the border. Price differentials in these cases are linked to demand elasticity rather than to the actual costs of the products. In some cases the poor quality of [illegible] counterparts. The high costs that consumers are willing to pay for some products are an inducement for traders to smuggle in the products to meet demand.

30. Price differentials also exist at the level of agricultural products. Farmers are generally expected to sell their produce to Government Marketing Boards which determine the prices of the produce to be marketed which are generally lower than on the [illegible] market. However when prices across the border are higher, farmers are tempted to channel their products through contraband across the border. Delays in receiving payment from marketing boards also encourage farmers to push their products through clandestine export channels.

(f) Ethnic affiliation

31. As has been pointed out earlier, borders spawned by the colonial era are artificial and even to-day cut by separating families into living on different sides of the border. Consequently it ensures that non-registered border trade is buttressed by the ethnic affiliation of the population living in the border areas who by their social, religious and cultural relations have developed similar consumption patterns.

(g) Shortage and non-availability of products on the market

32. The contraband of consumer goods towards neighbouring countries is one of the factors responsible for shortages of goods on the domestic market just as poor internal distribution accounts for the non-availability of goods in border areas. Such shortages of products on the markets are often plugged by illegal imports from neighbouring countries.

CHAPTER III

MAJOR PROBLEMS AND OBSTACLES TO THE DEVELOPMENT OF DOMESTIC TRADE

33. This chapter will touch briefly on the major bottlenecks confronting domestic trade in Africa.

34. The first problem lies with the very structure of the African economy. It is worth recalling that the colonial systems had set as their first objective the development of export crops to meet the needs of colonizing countries. After their accession to independence, African countries did not bring about any radical change in the production structures handed down by colonial powers; on the contrary they have continued to tilt towards cash crops into which new production outputs were invested in a bid to increase foreign currency earnings to defray the costs of imports and promotion development projects. However foreign currency earnings and external inputs have continued to fall short of expectation as a result of which levels of investment in the agricultural sector have not recorded any substantial rise. Indeed, according to an ECA publication (4) "The resources allocated generally proved inadequate and the level of domestic official investment in the agricultural sector remained far below the 20-25 per cent of total such expenditure recommended in APPER". This policy which was denied to boost cash crops production has relegated to the back seat the development of food crops to meet domestic demand. The agricultural production system current in most African countries is a contributing factor to the short falls in food production. Indeed, the soil is cultivated by small holders using rudimentary implements and applying little fertilizer. The difficulties experienced have led the farmer to confine his efforts to produce subsistence crops with an occasional attempt at producing an marketable surplus while his enthusiasm for farm work is being continuously eroded until he decideds to stop work and swell the ranks of the increasing rural exodus. The farmer is faced with other problems. He is often compelled to go out on his own in search of outlets for his products. He can hardly grasp the phenomenon of demand, effective or potential, for his products. This lack of marketing organization of consumer goods is another factor that accounts for the low volume of goods traded on the domestic markets.[4]

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[4] Source: Survey of Economic and Social Conditions in Africa 1985-1986, E/ECA/CM.13/3, p.89.